

DIVISION OF HEALTH CARE FINANCE AND POLICY

PRICING GROUP

TWO BOYLSTON STREET

BOSTON, MA 02116

**INSTRUCTIONS FOR PREPARING AND FILING**

**RESIDENTIAL CARE FACILITY COST REPORTS**

**2007 HCF-4, HCF-2-RH AND HCF-3**

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## **INTRODUCTION**

The Division of Health Care Finance and Policy uses Forms HCF-4, HCF-2-RH and HCF-3 as the basis for computing per diem rates of payment for Resident Care facilities that care for publicly-aided patients and for informational purposes in various databases. It is extremely important that these reports are prepared by persons who are familiar with the regulation 114.2 CMR 4.00 Rates of Payment to Resident Care Facilities. Copies of this regulation may be obtained on our website at [www.mass.gov/dhcfp](http://www.mass.gov/dhcfp) or from the Secretary of State's Office, Public Document Division, Room 116, State House, Boston, MA 02133, for a nominal charge. The telephone number is (617) 727-2834.

## **WHO MUST FILE**

All Resident Care Facilities who render care to publicly-aided patients must file form HCF-4.

## **WHAT FORM TO FILE:**

Resident Care Facilities file an HCF-4 cost report.

Real Property Rent Expense for the Resident Care Facility must be reported on a HCF-2-RH cost report.

Management Fees are reported on an HCF-3 cost report.

## **WHEN TO FILE**

Forms HCF-4, HCF-2-RH and HCF-3 are calendar year cost reports. The reports for 2007 are due on April 1, 2008. Reports not received by April 1, 2008 will be subject to sanctions per 114.2 CMR 4.03(7).

When there is a transfer of ownership, the report(s) (as well as all prior reports) are due within sixty (60) days. These partial year reports must be filed for the exact period of the calendar year that the provider number existed. New facilities should review the filing requirements as stated in 114.2 CMR 4.03(3)(b)(2).

When a provider is required to file a cost report for a base year before the Division has rewritten the report to reflect that base year's regulations, e.g. new facilities, etc., the prior year's cost report should be used. This cost report should be clearly marked, informing the Division that the prior year's cost report is being utilized.

In exceptional circumstances, providers may seek an extension of time for submission of the reports. Such extensions will only be granted to providers who request them, in writing, fifteen days prior to the due date per 114.2 CMR 4.00. The request must demonstrate the exceptional circumstances which prevent the provider from meeting the deadline. All requests for extensions must be made by the provider and not by an agent or other representative.

In no case shall extensions be granted for more than thirty (30) days past April 1. All requests for extensions should clearly state the full provider name and the vendor payment number. In the case of HCF-2 extensions, the vendor payment number and the full name of the realty company must be included.

## **WHERE TO FILE**

The HCF-4, HCF-2-RH, and HCF-3 should be filed in DUPLICATE to:

Division of Health Care Finance and Policy  
Pricing Group  
Two Boylston Street  
Boston, MA 02116

## **ADDITIONAL INFORMATION**

For assistance in completing these forms, contact the Help Desk at (800) 609-7232 between 9 am and 5 pm.

## GENERAL INFORMATION

Forms HCF-4, HCF-2-RH and HCF-3 must be completed on the accrual basis. These reports are essentially balance sheets and income statements which must accurately reflect the complete financial condition of the facility, realty trust, Management Company or other reporting entity. **IT IS ESSENTIAL THAT EACH REPORT REFLECT THE ENTIRE FINANCIAL STATEMENT OF THE REPORTING ENTITY. (PARTIAL REPORTING IS NOT ACCEPTABLE.)** There is a minor exception to this requirement. Certain timing differences between the books of the provider and the claim for reimbursement requirements may occur which could result in modest variances between the report and the provider's books. When this occurs, Schedule 7, Reconciliation of Income per Report with Income per Books should identify the variances.

In addition to being a complete financial statement, these forms also constitute a claim for reimbursement. On form HCF-4, the conversion from a financial statement to a claim for reimbursement begins with entering the total expenses, and subtracting the non-allowable expenses. The report also provides a vehicle to claim allowable fixed costs and costs that were generated through the entities which report on the forms HCF-2-RH (realty company) and HCF-3 (management company).

These forms have been designed so that the information can be easily keypunched. The forms should be TYPED OR HANDWRITTEN CAREFULLY IN BLACK INK. Only the original form, a very clear photocopy, or an approved facsimile will be accepted. Only dollars should be reported and rounding off of cents should be done carefully to ensure that all totals balance precisely. MATHEMATICAL ERRORS are a MAJOR REASON for COST REPORTS being returned to PROVIDERS.

ALL SCHEDULES THAT ARE NOT APPLICABLE SHOULD BE MARKED WITH "N/A."  
BLANK SCHEDULES WILL BE RETURNED TO THE PROVIDER.

Footnotes which reveal special information are not only permissible but are required whenever the cost report says "Explain." However, please place such additional information and/or audit marks away from the account and value information which will be keypunched. Please put all comments, explanations and addendum on the page marked "Footnotes and Explanations," (Page 6 of the HCF-4, Page 5 of the HCF-2-RH and page 5 of the HCF-3).

EACH COST REPORT MUST BE SIGNED IN TWO PLACES. AN ORIGINAL SIGNATURE IS REQUIRED ON PAGE 2 AND 3. THE SIGNER MUST BE AN OWNER, OFFICER, PARTNER OR OTHER LEGALLY AUTHORIZED PERSON.

Computer generated facsimiles are acceptable if the cost report(s) is identical to the report(s) provided by the Division and is approved in advance. All applications for approval must be submitted to the Division by March 1.

## NON-RESIDENT CARE FACILITY ACTIVITY AND TRANSACTIONS

Those facilities that provide Adult Day Care must file the Adult Day Health Report with the Health Data Policy Group at the Division. The amount reported on the HCF-4, account 8040.0 must match the total amount reported on the Adult Day Report. Schedule 15, Detail of Claimed Fixed Costs, on the HCF-4 should not include any fixed costs associated with the Adult Day portion of the facility. All activity and transactions related to Adult Day Care or Other Non-Nursing Facilities should be identified and reported in accounts 8040.0 and 8065.0 respectively. These accounts have been established to collect all of the relevant non-nursing facility costs, including fixed costs of the facility and any asset additions to fixed assets should be assumed to be shared by those activities unless specific assets have been identified and recorded as contributing to only one cost center. Specific identifications of assets or other costs must be explained and documented.

## **DETERMINATION OF NEED**

If the facility received a letter of final approval of a Determination of Need, please attach a copy of the letter outlining the approved maximum capital expenditures. A detailed analysis reconciling the Determination of

Need letter to the claim on Schedule 15, Detail of Claimed Fixed Costs, is required. This analysis should be provided in the Footnotes and Explanations section.

## **COSTSPLITTING**

Any cost which is split across two or more accounts on the cost report(s) shall be supported by adequate documentation. Adequate documentation for personnel costs that are split shall be defined as follows: complete and detailed time records such as time cards or sheets recorded on an individual basis and supporting the splitting of the personnel cost among the accounts, as well as work schedules and job descriptions. Each account impacted by such cost splitting shall be identified and the cost splitting fully explained in the Footnotes and Explanation section of the cost report.

## **NEW ITEMS**

**HCF-3 Schedule 17: Detail of Administration Salaries Expense** A new schedule has been added to detail the salaries claimed in account 9312.1. This schedule must include the name, job title, a brief job description and the gross salary for each person claimed in account 9312.1.

## **FINAL CHECK-OFF**

Many cost reports are returned, rates delayed, or unnecessary disputes are created because of reporting errors. To help you avoid these pitfalls and allow the Division to process rates timely and efficiently, please review the following checklist.

1. Have the HCF-4, HCF-2-RH and HCF-3 reports been signed in two places by an original signature (e.g not a copy)?
2. Is each report mathematically correct? Please review the mathematical calculations for accuracy in areas including but not limited to bucket account totals, totals from supplementary schedule details that must reconcile with the general accounts totals, and amounts that must match values reported either on another schedule and/or an account value from a prior year report?
3. Have the fixed costs been claimed on the allowable basis instead of actual cost?
4. On, Reconciliation of Net Worth Schedule, does the beginning balance of Net Worth on line 1 equal the ending balance of the prior year cost report?
5. Have the schedules of non-allowable expenses been completed?
6. Have copies of equipment, office space leases, and pension plans been filed with the Division?
7. Are you satisfied that by converting this report to a claim that the resulting rate will accurately reflect all of the provisions of 114.2 CMR 4.00 which define reasonable operating costs as those costs incurred by a provider which are reasonable and necessary in providing adequate care to publicly-aided patients?

## **RESIDENT CARE FACILITIES REPORT – HCF-4**

### **Certification by Owner, Partner, or Officer**

**Please enter the name of the resident care facility, the vendor payment number, and time period for the data included in the cost report on the designated lines. Next, review the information reported in the HCF-4 for accuracy. Once you are satisfied that the information is correct, please complete the remainder of the certification section.** This schedule must be completed and signed off with an original signatures by the owner partner or officer who must also be the authorized legal signatory for the entity.

### **Preparer Information**

If someone other than the Owner, Partner or Officer prepared this report, enter the preparer information and circle the type of accounting service that was performed.

### **Schedule A – Disclosure Information**

This section contains questions regarding the direct and indirect ownership of the resident care facility, common ownership with any Massachusetts and Non-Massachusetts Nursing Homes and Rest Homes, and related party transactions.

A direct owner is the legal entity or individual that is the resident care facility's owner of record. Enter the name of the corporation, trust, partnership, government agency, sole proprietor or other legal entity that is the legal owner of record.

An indirect owner is any individual or entity that holds a 5% or greater financial interest in the resident care facility direct owner. Enter the name of each stockholder, trust beneficiary, partner or any other individual or entity with such an interest.

A related party is an individual or organization associated or affiliated with, or that has control of, or is controlled by, the Provider; or is related to the Provider, or any director, stockholder, trustee, partner or administrator of the Provider by common ownership or control or in a manner specified in sections 267(b) and (c) of the Internal Revenue Code of 1954 as amended provided, however, that 10% is the operative factor as set out in sections 267(b)(2) and (3). Related individuals include spouses, parents, children, spouses of children, grandchildren, siblings, fathers-in-law, mothers-in-law, brothers-in-law and sisters-in-law.

### **Proprietorship, Partnership or Corporate Information**

This schedule is used to report the names of the legal owners of the business and to disclose the salary and other compensation paid to owners as well as what accounts were charged. Sole proprietors should report the same amount as reported in the draw account and under no circumstances should any amount be claimed for personal services in an account other than draw. If additional space is needed, use the Footnotes and Explanations section on HCF-4, page 6.

### **Schedule of Highest Paid Salaries**

List the names, salaries, benefits and percentage of time devoted by HCF-4 account number for each of the three employees who have the highest compensation being claimed on this report.

### **HCF-4 General Information**

This schedule asks a number of questions that confirm and update basic Division data, indicate changes of ownership, and disclose specific conditions or situations to help the Division staff to better understand the provider's operation and expeditiously set rates.

Please note that the answers to several of the questions on this schedule may require a follow up action, specific entries elsewhere on this report or further elaboration on the Footnotes and Explanations section on page 6 of the HCF-4.

### **Footnotes and Explanations**

This page is used to provide detail to any of the information provided on the HCF-4 report that needs elaboration, explanation or clarification.

## **1: Balance Sheet**

**The information in this schedule must accurately reflect the financial position of your entity.**

### **Assets:**

## **Current**

- 1050.0** Other Cash- Other cash assets not included in checking account and cash on hand.
- 1010.0** Total Cash - Calculation (Total of accounts 1020.0 through 1050.0)
- 1270.0** Prepaid Interest - Interest benefit paid for in advance.
- 1280.0** Prepaid Insurance - Insurance benefit paid for in advance.
- 1295.0** Capitalized Pre-Opening Costs – This account should be used to report all operating expenses incurred prior to the admission of residents in new facilities and which have been capitalized by the provider. Examples of such costs, commonly referred to as start-up costs, include the salaries and related expenses of the administrator and other staff that were hired prior to the date of licensure and arrival of the first resident. Because new facilities benefit from other special provisions, the amortization expense related to the capitalized pre-opening costs should be reported in account # 4435.0, Pre-Opening Expenses, which will be automatically disallowed by the Division.
- 1300.0** Other Prepaid Expenses - This account should be used to record expenditures for future benefits. An example would be prepaid rent. This account should not be used to capitalize improvements or maintenance expenses which, in the provider's opinion, may benefit future periods. Improvements or maintenance costs that will benefit future periods should be capitalized into the appropriate Improvement Fixed Asset Account and depreciated over the aggregate useful lives established by the Division's regulations. Similarly, this account should not be used to record and subsequently claim pre-opening costs which are not reimbursable or training costs which, while reimbursable, are to be expensed in the period in which they are incurred.
- 1005.0** Total Current Assets - Calculation (Total of Accounts 1010.0, 1060.0, 1150.0, 1190.0, 1210.0, 1260.0, and 1310.0).

## **Fixed/Non-Current Assets**

- 1511.1** Land-Cost  
Gross value of land.
- 1510.0** Land- Book Value  
Net amount of land.
- 1521.1** Building-Cost  
Gross value of building.
- 1522.2** Building-Accumulated Depreciation  
Cumulative amount of depreciation on building.
- 1520.0** Building-Book Value  
Net amount of building.
- 1611.1** Building Improvements -Cost  
Gross value of building improvements.
- 1612.2** Building Improvements-Accumulated Depreciation  
Cumulative amount of depreciation on building improvements.
- 1610.0** Building Improvements-Book Value  
Net amount of building improvements.
- 1626.1** Leasehold Improvements – Cost  
Gross value of leasehold improvements.
- 1627.2** Leasehold Improvements – Accumulated Depreciation  
Cumulative amount of depreciation on leasehold improvements.
- 1625.0** Leasehold Improvements – Book Value  
Net amount of leasehold improvements.
- 1631.1** Other Improvements – Cost  
Gross value of other improvements.
- 1632.2** Other Improvements – Accumulated Depreciation  
Cumulative amount of depreciation on other improvements.
- 1630.0** Other Improvements – Book Value

Net amount of other improvements.

**1616.1** HCF Capital Improvements – Cost

Gross value of HCF Capital Improvements.

**1617.2** HCF Capital Improvements – Accumulated Depreciation

Cumulative amount of depreciation on HCF capital improvements.

**1615.0** HCF Capital Improvements – Book Value

Net amount of HCF Capital Improvements.

**1651.1** Equipment – Cost

Gross value of equipment.

**1652.2** Equipment – Accumulated Depreciation

Cumulative amount of depreciation on equipment.

**1650.0** Equipment – Book Value

Net amount of equipment.

**1661.1** HCF Capital Equipment – Cost

Gross value of HCF Capital Equipment.

**1662.2** HCF Capital Equipment – Accumulated Depreciation.

Cumulative amount of depreciation on HCF capital equipment.

**1660.0** HCF Capital Equipment – Book Value

Net amount of HCF Capital Equipment.

**1701.1** Motor Vehicles - Cost

Gross value of motor vehicles.

**1702.2** Motor Vehicles – Accumulated Depreciation

Cumulative amount of depreciation on motor vehicles.

**1700.0** Motor Vehicles – Book Value

Net amount of motor vehicles.

**1710.1** Software - Cost

Gross value of software.

**1710.2** Software – Accumulated Depreciation

Cumulative amount of depreciation on software.

**1710.0** Software – Book Value

Net amount of software.

**1715.1** HCF Capital Software – Cost

Gross value of HCF Capital Software.

**1715.2** HCF Capital Software – Accumulated Depreciation

Cumulative amount of depreciation on HCF capital software.

**1715.0** HCF Capital Software – Book Value

Net amount of HCF Capital Software.

**1500.0** TOTAL - FIXED ASSETS

Calculation (Total of accounts 1510.0 through 1733.6)

**Deferred Charges and Other**

**1975.1** Mortgage Acquisition Costs

This account is used by providers to disclose the balances that relate to the annual amortization reported as additional interest expense on Schedule 5, Analysis of Mortgages and Notes Payable.

**1979.0** Construction in Progress

Construction in progress or work in progress should be reported in this account. Such construction or work in progress should never be reported and claimed as an allowable asset on Schedule 15, Detail of Claimed Fixed Costs. Only when the asset has been converted to full use for the care of patients should it be entered there.

**1980.0** Other

All other non-current assets.

**1000.0** Total Assets  
Calculation (Total of Accounts 1005.0, 1500.0, and 1900.0)

**Liabilities and Net Worth:**

**Current Liabilities:**

- 2110.0** Officer, Owner, Related Parties  
The portion of loans to the resident care facility by the Owner, Officer or Related Parties due within a year.
- 2120.0** Subsidiaries and Affiliates  
As above but loan would be from subsidiary or affiliate.
- 2130.0** Banks  
Line of credit due within a year.
- 2150.0** Other Short-Term Financing  
Working Capital from any source not individually listed that is due within a year.
- 2160.0** Payments Due w/in One Year on Long Term Debt:  
Most providers have long-term debt and accordingly, report values in Mortgages (**2310.0**), and Other Long Term Debt (**2320.0**). Any provider who reports a mortgage or other Long Term Debt must also enter the amount which is due within one year under Current Liabilities, acct. 2160.0. If no portion of the long-term debt is due within one year, an explanation should be provided in the Footnotes and Explanations section.
- 2100.0** Total Notes and Loans Payable (Total of accounts 2110.0 through 2160.0)
- 2290.0** Other Current Liabilities- All other current liabilities not cited above.
- 2005.0** Total Current Liabilities – (Total of Accounts 2010.0, 2050.0, 2100.0, 2180.0, and 2250.0)

**Net Worth Proprietorship or Partnership:**

**2510.0** Total Proprietorship or Partnership - The sum of accounts 2520.0 through 2550.0

**Net Worth Corporation:**

**2610.0** Total Corporation - The sum of accounts 2620.0 through 2650.0

**2000.0** Total Liabilities and Net Worth - The total of accounts 2005.0, 2300.0, and 2500.0

**2: Statement of Profit and Loss-**

**Operating Expenses:**

- 4110.1** Administrative/Responsible Person's Salaries:  
This account should be used to report the salary of the Administrative/Responsible Person as defined in 114.2 CMR 4.00.
- 4125.1** Officer Salaries:  
Officer salaries are presumed to be for non-active officers. If the officer performs an active role in the facility's operation, the salary and related benefits and taxes should be posted to the account representing the type of work done. For example, if the officer works in the nursing department, the salary and related expenses should be reported in nursing salaries and nursing benefit, taxes and workers compensation accounts.
- 4160.6** Management Consultants:  
Management Consultant expense is the cost of outside expertise assisting or advising the facility's staff with an identifiable project or task. Examples of consulting expense include public relations development, recruiting through personnel agencies, reorganization of medical records by outside vendors, and feasibility studies.
- 4275.5** Motor Vehicle Expense:  
All costs associated with the operation of a motor vehicle including insurance, excise tax, depreciation, and interest on a motor vehicle note should be reported in this account.

**4310.1 Employee Benefits (For all benefit accounts)**

**Thru** Pay in lieu of benefits and the cost of benefits paid directly to the employee (vacation, sick, or

**4310.0** holiday pay) should be reported in the appropriate salary account and not under benefits.

**4431.7 Malpractice Insurance/General Liability:**

This account should be used to report and claim both malpractice and general liability insurance. General liability insurance should not be included in fixed cost accounts.

**4435.0 Pre-Opening Expenses:**

Pre-opening expenses should be used to report the amortization of capitalized pre-opening costs which is discussed in the balance sheet section of the instructions. The amortization of such costs is not reimbursable.

**4515.8 Personal Property Taxes:**

Within the fixed cost section of the profit and loss statement there is an account called Personal Property Taxes. This account should be used to report taxes paid on the value of equipment and furnishings to municipalities, where applicable.

**Restorative Therapy:**

**7011.1 Indirect Salaries**

This account includes the salaries of staff that assist other staff with learning the techniques of restorative therapy.

**7012.1 Direct Salaries**

This account includes the salary of the therapist that does direct treatments for residents per a physician's order.

**7012.2 Direct Benefits**

This account includes all associated salary costs such as employer payroll taxes, workers' compensation, health and life insurance, and pension benefits.

**8040.0 Adult Day Care – See page 5 of the instructions.**

**8065.0 Other Non-Nursing Facility Costs**

These accounts should collect all of the costs, including fixed costs and that portion of any shared costs which relate to these activities and are not necessary for the care of publicly-aided residents in the resident care facility.

**3: Resident Days**

Resident days are the unit of service in a resident care facility. They represent the number of days of occupancy in a facility. Resident days represent an important part of the per diem rate computation and help to provide valuable statistics. Resident days should be carefully calculated and reconciled not only to billings but the daily census as well. Furlough or reservation days should be included.

Community support resident days should be categorized as public (0180.0) or private (0182.0) and then totaled in account 0185.0.

In Reports that are for less than a full calendar year, the resident days must be reported for the same period as the expenses, that is, for the exact period of a calendar year that the provider number existed.

Use the space provided in the footnotes and explanation section to detail any "Other Public" Nursing or Resident Care days noted. For example, if a resident care facility has a contract with a Health Maintenance Organization or Neighborhood Health Plan to Care for Medicaid residents, these resident days would be specified under "Other Public Payers" and would be described in detail (type of contract, number of residents, number of days, HMO or Health Center) for each quarter. If resident days are reported under "VA and Other Public" then the income for those days should be reported in account 3023.2, (VA and Other Public).

**5: Analysis of Mortgages and Notes Payable**

This schedule should include all mortgages and notes payable whether or not interest expense has been incurred. Rates of interest should be clearly indicated. For Variable rate mortgages use "VAR" or "P + #" if appropriate. **Period expenses** such as mortgage insurance should be reported as a period expense and a detailed disclosure should be made in the Footnotes and Explanation section. Liabilities relating to working capital debt should be reported on Part 2. All existing debt should reconcile to the Balance Sheet and Income Statement accounts. Consistent balances should be carried forward from the previous year's cost report. New financing or refinancing should be completely disclosed on Schedule 5. Details of items such as Mortgage Acquisition Costs, Bond Discounts, Bond Premiums, Bond Service Fees, Interest earned on Escrow Funds and Negative Principal Payments, as well as any other significant information with regards to this Long Term Debt should be disclosed in the Footnotes and Explanations section. Long Term Debt - Bonds should be reported at Face or Stated Value of the Bonds at the time of issue and Bond Discounts or Premiums reported as a Mortgage Acquisition Cost. Total disclosure of all facts regarding such financing should be made in the Footnotes and Explanations section.

#### **7: Reconciliation of Income per Report with Income per Books**

This schedule should be used to disclose any difference between the cost report and the books of the provider. HCF-4 Net Income (loss) before reconciling items must agree with Schedule 8, Net Income (Loss). Material items appearing on this schedule should be explained in detail in the Footnotes and Explanations section.

#### **8: Reconciliation of Net Worth**

This schedule summarizes the changes in net worth during the reporting period. Proprietorships and partnerships should complete Part 1 and corporations should complete Part 2. The beginning balance of Net Worth on line one must be the same as the reported ending net worth on the previous year's cost report. Any variance must be explained in detail with footnotes. The ending balance must agree with the reported net worth on this year's cost report. The Net Income (Loss) amount must equal the amount reported on Schedule 7 before reconciling items. The column names and descriptions should not be changed. This format facilitates structured entry into the schedule. If for any reason this schedule presents reporting problems, provide a complete explanation in the Footnotes and Explanations section.

#### **13: Detail of Automatically Disallowed Expenses**

This schedule begins the process of converting the report to a claim for reimbursement. Providers should enter all appropriate values from the profit and loss statement and report the total in the Non-Allowable Expense portion of the cost report on Schedule 2, page 19. If the provider has nothing to report, then "not applicable: N/A" should be written and the total set equal to zero.

#### **14: Detail of Self Disallowed Expenses**

This schedule requires the provider to disclose all expenses not automatically disallowed that are not reimbursable under 114.2 CMR 4.00. No negative amounts will be allowed. Report the total on Schedule 2, page 19.

#### **15: Detail of Claimed Fixed Costs**

Since reported fixed costs are automatically disallowed, this schedule requires the provider to restore **only the allowable fixed costs** to the claim. Great care should be taken with this schedule since this is the basis of your fixed cost reimbursement. Errors and omissions on this schedule cause serious delays in computing rates. The allowable basis is seldom the same as actual cost so preparers should carefully review the provisions of 114.2 CMR 4.00. The starting point of this schedule should be your ending allowable basis from the previous year which is clearly shown on your previous rate received from the Division. Be sure to reflect the additions and deletions previously reported. Your claim for long-term interest including related period expense such as service fees, mortgage insurance, etc. as well as any new allowable Long Term Debt should reflect all permanent factors calculated on your existing debt as well as any new Long Term Debt. Make complete disclosure of your

calculations supporting the permanent factor(s) of your new debt in the Footnotes and Explanations section.

#### **6: Detail of Clerical Expenses**

The total expenses for clerical services must be detailed on this schedule. If the detail provided here does not equal account 4140.1, the report will be returned to the provider.

#### **17: Detail of Other Accounting**

The total expense for Other Accounting services must be detailed on this schedule. If the detail provided here does not equal account 4360.3, the report will be returned to the provider. Services must be identified individually and with the corresponding charges.

#### **29: Detail of Employee Wages and Benefits**

This schedule requires the provider to furnish data for persons employed as staff of the facility. Do not report data on persons hired through temporary staffing agencies or those hired as "day-labor." Persons hired for the facility by a management company or central office entity should be reported if they are included in the HCF-4 salary accounts referenced. Data should be provided on the **accrual basis** and should correspond to the values in the HCF-4 salary accounts referenced in Column 5.

**Column 2:** This number should be calculated by dividing the total hours (column 4) for each salary category by 2,080. For example, 3,500 hrs / 2,080 = 1.7 FTE's (Full Time Equivalents)

**Column 3:** The number of persons employed as staff of the facility in each category. Part-time employees and those employed for less than the full year (52 weeks) are each counted as one employee.

**Column 4:** The total hours for which time records were kept and wages were paid for staff in each category, as recorded on the accrual basis. This should include all accrued sick, vacation, personal and holiday time for this reporting period. Volunteer hours are not reported, but hours worked by non-paid workers should be included. \_

#### **REALTY COMPANIES – HCF-2-RH**

**The Realty Company Report for providers filing an HCF-4 cost report has been renamed and is called an HCF-2-RH. This report is similar to previous years.**

If the operating company incurs rent expense or if a value is reported on the HCF-4 in Real Property Rent Expense, account (4535.8), or HCF-3, account (9382.0) a Realty Company Report, Form HCF-2-RH must also be filed. Real property rent expense will be disallowed but the allowable costs of the realty company will be added to the reimbursement rate. The HCF-2-RH is required whether or not the realty is owned by a related party.

Whenever rent is paid to or expenses or allowances are claimed by a realty company which owns more than one property, an HCF-2 form which reports all of the financial activity and condition of that entity should be filed. **In addition, subsidiary form HCF-2-RH's should be filed for each facility and clearly marked "HCF-2-RHA", "HCF-2-RHB". etc.** Each subsidiary HCF-2-RH should also clearly indicate the name, address and provider number of the nursing facility or rest home which it represents, as well as, if applicable, the identification of other properties for which no claims are being made.

For example, if a realty trust owns a nursing facility in Athol, a resident care facility in Orange and apartments in Greenfield, a total of four (4) form HCF-2-RHs must be filed. One form will report the financial condition of the entire entity and be clearly marked, "See also HCF-2-RHA, HCF-2-RHB, and HCF-2-RHC". The HCF-2-RHA should report that portion of the entity which relates to the nursing facility, the HCF-2-RHB should report that portion of the entity which relates to the resident care

facility and the HCF-2-RHC should report the remainder of the activities and be marked "Other Non-Claimed Realty Report". The subsidiary reports must total to and be consistent with the overall realty report.

## **HCF-2-RH SCHEDULES**

**All sections must be completed. Do not leave any items blank. If any item or question does not pertain to your entity, then please write the words "non-applicable" or "N/A" in the field so that it is apparent that the item or question was not overlooked.**

### **Certification By Owner, Partner, or Officer**

This schedule must be completed and signed off with an original signature by the owner, partner or officer who must also be the authorized legal signatory for the entity.

### **Preparer Information**

If someone other than the Owner, Partner or Officer prepared this report, enter the preparer information and circle the type of accounting service that was performed.

### **Schedule A – Disclosure Information**

This section contains questions regarding the direct and indirect ownership of the realty company, common ownership with any Massachusetts and Non-Massachusetts Nursing Homes and Rest Homes, and related party transactions.

### **Proprietorship, Partnership or Corporate Information**

This schedule is used to report the names of the legal owners of the realty company and to disclose the salary and other compensation paid to owners as well as what accounts were charged. Sole proprietors should report the same amount as reported in the draw account and under no circumstances should any amount be claimed for personal services in an account other than draw. If additional space is needed, use the Footnotes and Explanations section on HCF-2-RH, page 5.

### **Footnotes and Explanations**

This page is used to provide detail to any of the information provided on the HCF-2-RH report that needs elaboration, explanation or clarification.

## **1: Balance Sheet**

**The information in this schedule must accurately reflect the financial position of your entity.**

**Since the balance sheet accounts in the HCF-2-RH are similar to those in the HCF-4, please refer to the definitions in the HCF-4 instructions.**

## **2: Realty Company Statement of Income and Expense-**

### **Income**

**3510.0 Rental from Nursing and/or Resident Care Facility:** This account represents the income earned from renting the building and/or equipment to a nursing and/or resident care facility.

**3520.0 Other Rental:** This account represents the rental income earned from any person or entity, except for a nursing or resident care facility.

**3530.0 Other Income:** This account represents the income generated from non-rental transactions.

**3540.0 Fixed Recoverable Income:** This is a new account which should be used to report any fixed cost recoverable income. The amount reported in this account must also be reported in Schedule 13 and Schedule 15 on the designated lines.

**Expenses**

This section of the report is broken down by control accounts; Total Expenses, Total Non-Allowable Expenses and Total Expenses Claimed. Please report the gross fixed and variable expenses on the designated lines in the Total Expense Section and the grand total in account (9500.0).

Please note that for the fixed cost expenses, the non-allowable amount should be carried forward from HCF-2-RH Schedule 13, Automatically Disallowed Expenses

Other Variable Expense totals for reported, non-allowable, and total claimed expenses must be carried forward from the total amounts reported in Schedule 4: Detail of Variable Expenses., accounts #9590.0, 9501.2 and 9502.2 accordingly.

Total Expenses Claimed, Account # 9502.0 is the sum of the Schedule 15: Claimed fixed costs, and the Schedule 4: Detail of Variable Expense Claimed, account # 9502.0.

- 4: Detail of Variable Expenses** – Please provide the line item detail of each variable expense that is included in the other variable expenses reported in Schedule 2. Report the gross amount in the expense column and all non-allowable amounts including variable recoverable income in the self-disallowed column. The total claimed must be the gross reported amount less all self-disallowed amounts and must equal the other variable expense total reported, non-allowable and claimed variable expenses, respectively as reported in Schedule 2. The claimed amount of the Details of Variable Expenses listed in HCF-2-RH, Schedule must also be reported in HCF-4, Schedule 2 (account # 9502.2) or HCF-3, Schedule 10 accordingly.

**Additional Information**

This section includes questions regarding the entities that the HCF-2-RH is being completed for, the extent of the reporting of realty company assets in the HCF-2-RH and the time period for the expenses being reported in the HCF-2-RH.

**5: Summary of Notes Payable**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-2-RH.

**7: Reconciliation of Income per Report with Income per Books**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-2-RH.

**8: Reconciliation of Net Worth**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-2-RH.

**13: Detail of Automatically Disallowed Expenses**

Automatically Disallowed Expenses are expenses that are considered non-allowable for reimbursement purposes. This schedule begins the process of converting the report to a claim for reimbursement. Providers must enter all reported values from each automatically disallowed account in Schedule 2: The Realty Company Statement of Income and Expense on the designated lines in Schedule 13. If the provider has nothing to report, then mark the top of the page with "not applicable: N/A" and zero should be entered in the total automatic disallowed costs account #9501.1. Once you have completed this schedule, the Total Automatic Disallowed Expenses, in Schedule 13 account 9501.1 must also be reported in the same account in Schedule 2: The Realty Company Statement of Income and Expense under the "Non-Allowable Expense section on page 9 of the HCF-2-RH

**15: Detail of Claimed Fixed Costs**

Great care should be taken with this schedule since this is the basis of your fixed cost reimbursement. Errors and omissions on this schedule cause serious delays in computing rates. The allowable basis is seldom the same as actual cost; carefully review the provisions of 114.2 CMR 4.00. The starting point of this schedule should be your ending allowable basis from the previous year and prior rate period rate calculations. Be sure to reflect the additions and deletions previously reported. The claimed building depreciation expense should be adjusted to the amount calculated based upon the building depreciation rate reflected on previous rates which may be greater than the 2.5%. Your claim for long-term interest including related period expense such as service fees, mortgage insurance, etc. as well as any new allowable Long Term Debt should reflect all permanent factors calculated on your existing debt as well as any new Long Term Debt. Make complete disclosure of your calculations supporting the permanent factor(s) of your new debt in the Footnotes and Explanations section. The claimed fixed costs in HCF-2-RH Schedule 15 must equal the total allowable fixed costs in HCF-2-RH Schedule 2 account #9502.1, and claimed HCF-2-RH fixed in HCF-4 Schedule 15 or HCF-3 Schedule 15 accordingly.

### **MANAGEMENT COMPANIES – HCF-3**

A management fee is the cost related to a second party overseeing the ongoing operation of all or part of the facility. Whenever management fees are incurred, they should be reported in account 4160.3 (HCF-1 or HCF-4). Whether or not the expense is claimed for reimbursement, a Management and/or Central Office Report, Form HCF-3, must be filed. Management fees will be disallowed but the allowable costs of the management company as allocated over the managed entities will be added to the reimbursement rate. In the event that the management company itself pays a management fee, then additional HCF-3's must be filed, e.g. HCF-3A, B, etc. Special allocations to certain facilities can be accommodated by combining direct and shared expenses on Schedule 10 of the HCF-3 and putting a footnote on the appropriate HCF-4. All such special allocations must be supported by detailed and well-documented evidence. **Form HCF-3 includes the balance sheet, profit and loss statement, and allocation of allowable management company expenses. The values reported in the HCF-3 represent the true financial condition of the management company entity and therefore should reflect all of the costs of the management company, not net costs after adjustments.** If expenses of the management company have been reported directly on the HCF-4, this should be disclosed in the Footnotes and Explanations section on both the HCF-4 and the HCF-3. The cost report related question on the HCF-3, pg. 12, should be answered affirmatively.

Management Consulting (4160.6) (HCF-1 or HCF-4) is the cost of a specific identifiable project or task done by an outside vendor. An HCF-3 is not needed if **only** management consulting services are provided.

### **Certification by Owner, Partner or Officer**

This schedule contains two sections which must be completed and signed off with original signatures by the appropriate people. The first section is to be completed and signed off by the owner partner or officer and must be the authorized legal signatory for the entity.

The second section must be completed and signed off by the cost report preparer, someone other than the owner, partner or officer. If this section does not apply to the entity, please write "N/A" on the designated line for the preparer's name.

### **Schedule A: Disclosure Information**

This schedule is similar to the Disclosure Information for the HCF-4, Schedule A, page 3 above, except that it is information furnished for the HCF-3 (Management Company). If the facility is owned by a corporation or chain, list the name of the corporation under "Last Name". Facilities or related entities that are in a trust must list the beneficial owner under "Last name".

Once the Disclosure Section is complete, please review it for accuracy and have the authorized signatory sign off with original signature at the bottom of page 3.

### **Sole Proprietor, Partnership and Corporate Information**

This page is used to report the names of the legal owners of the business and to disclose the salary and other compensation paid to owners as well as what accounts were charged. A complete accounting of all disbursements to the Owners, Partners and Officers should be reported here as presented in the examples below. Sole proprietors should report the same amount as reported in the draw account and under no circumstances should any amount be claimed for personal services in an account other than draw.

#### **Sole Proprietorship:**

_____	Account	#2530.0 1	# XXX	# XXX	# XXX	# XXX
Last Name	% Time Devoted	<b>75%</b>	XXX %	XXX %	XXX %	XXX %
Jones	Salary	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
First Name	Employee Benefits	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Fred	Payroll Taxes	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
	Workers' Comp.	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Title	Draw	<b>\$26,000</b>	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Circle one:	Other: _____	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
<b>Owner</b> / Officer /	Other: _____	\$ XXX	\$ XXX	\$ XXX	\$ XXX	\$ XXX
Partner	Total	<b>\$26,000</b>	\$ XXX	\$ XXX	\$ XXX	\$ XXX

#### **Partnership:**

_____	Account	#2540.0 1	#4110.1	#5115.5	#	#
Last Name	% Time Devoted	<b>0%</b>	<b>100 %</b>	<b>0%</b>	%	%
Smith	Salary	\$ XXX	<b>\$30,000</b>	\$	\$	\$
First Name	Employee Benefits	\$ XXX	<b>\$ 3,555</b>	\$	\$	\$
	Payroll Taxes	\$ XXX	<b>\$ 2,455</b>	\$	\$	\$
Judith	Workers' Comp.	\$ XXX	<b>\$ 575</b>	\$	\$	\$
Title	Draw	<b>\$16,000</b>	\$	\$	\$	\$
Circle one:	Other: <b>Plant Sup</b>	\$ XXX	\$	<b>\$1,500</b>	\$	\$
	Other: _____	\$ XXX	\$	\$	\$	\$
Owner / Officer /	Total	<b>\$16,000</b>	<b>\$36,585</b>	<b>\$1,500</b>	\$	\$
<b>Partner</b>						

### **Highest Paid Salaries**

The names, salaries and benefits of the three employees who have the highest compensation being claimed on this report must be disclosed in this schedule.

### **Footnotes and Explanations**

This page is used to provide detail to any of the information provided on the HCF-3 report that needs elaboration, explanation or clarification. Examples of accounts which may need further explanation include, but are not limited to: Pension Expense (type of plan, method of funding and vesting criteria); Other Assets (1980.0); Cost Splitting among different accounts; and Rent Expense, except for real property.

### **SCHEDULES**

**1: Balance Sheet:** The balance sheet accounts in the HCF-3 are similar to those in the HCF-4. Please refer to the definitions in the HCF-4 instructions.

**2: Statement of Profit and Loss:** In prior years, there were delays in balancing the HCF-3 Report due to mathematical and rounding errors in the submitted reports. The sum of the reported values in the detail accounts didn't reconcile to subtotal accounts and/or the control accounts by total and cost category and in many cases didn't reconcile to the totals reported on related schedules. This year cost category designations have been added to the HCF-3 Report to help you identify the cost category of each expense. Please refer to the grid on the next page for cost category classifications.

<b>Expense Classification Code</b>	<b>Expense Description</b>	<b>Accounts</b>
V	Variable	Administration Salaries (9312.1), Administrators in Training (9313.1), Clerical Services (9321.1), Payroll Services/EDP (9322.3), Q/A Professional (9323.1), Physical/Occupations Therapist (9323.2), Dietician (9323.4), Other Administrative Costs (9323.7), Office Supplies (9325.0), Recreational Therapy – Transportation (9326.0), Phones (9331.5), Conventions & Meetings (9338.6), Other Travel (9339.6), Advertising-Help Wanted (9341.5), License and Dues (4345.0), Group Life/Health Ins & Pensions-Admin (9351.6), Group Life/Health Ins & Pension – Other Employees (9353.2), Other Accounting Services (9362.7), Payroll Taxes – Admin (9371.2), Payroll Taxes- Other Employees (9372.2), Worker's Compensation – Other Employees (9373.3), Worker's Compensation-Administration (9376.2), General Insurance (9377.3), Miscellaneous Expense (9379.0), Maintenance (9390.0), and Other Property Costs (9391.0)
F	Fixed	Real Estate Taxes (9380.0), Personal Property Taxes, (9380.1) Insurance-Building, Improvements and Equipment (9380.5), Long Term Interest (9381.0) , Other Fixed(9382.0) Depreciation- Building (9386.8), Depreciation-Improvements (9387.8), Depreciation –HCF Capitalization Improvements (9387.9), Depreciation-Equipment (9388.8), Depreciation-HCF Capitalized Equipment (9388.9), Depreciation-Software/Ltd. Life Assets (9390.8), and Depreciation-HCF Capitalization Software/Ltd. Life Assets (9390.9)
D	Director of Nurses	Director of Nursing Salary (9323.3), Director of Nursing Group Life/Health Insurance & Pension (9352.0), Director of Nursing Payroll Taxes (9372.0), and Director of Nursing Worker's Compensation

Expense Classification Code	Expense Description	Accounts
		Insurance (9374.0)
N	Non-Allowable	Officer/Owner Compensation (9316.1), Director's Fees (9317.3), Other Management Fees (9321.0), Telephone Directory Advertising (9332.6), Motor Vehicle Expense (9336.5), Other Advertising (9342.6), Group Life/ Health, & Life Ins. & Pension-Officers/Owner/Dir. (9351.7), Accounting Appeal Services (9361.3), Legal Services (9366.3), Other Legal (9367.7), Payroll Taxes-Officer/Owner/Director (9371.3), Workers' Comp.-Officer/Owner/Director (9373.1), Interest on Late Payments, Penalties (9381.5), Interest on Working Capital (9381.7).

### Income

#### **3630.0** Nursing Facilities:

Any income generated from nursing facilities.

#### **3650.0** Other Income:

Any income except for income generated from nursing facilities. Recoverable amounts of other income must be reported under the related cost classification in Schedule 14, Detail of Self-Disallowed Expenses to disclose and reduce claims for Variable (account 3650.1), Direct of Nurses (account 3650.2), and/or Fixed Expenses (account 3650.3) accordingly.

#### **3600.0** Total Income:

All gross income for the reporting period which must equal the sum of accounts 3630.0 and 3650.0.

### Expenses

#### **9382.0** Other

This account must be itemized on bottom of page 11. If Real Property Rental is included, a copy of the lease must be on file with the Division. If rent is claimed, an HCF-2-RH must be filed.

#### **9391.0** Other Property Costs

Provide details of this account on Schedule 22. This account should not include rent.

### Reported Management Company Expenses

#### **9300.1** Total Reported Fixed Costs:

Sum of all the fixed ("F") accounts in the Profit and Loss Statement; account (9380.0) Real Estate Taxes, (9380.1) Personal Property Taxes, (9380.5) Insurance – Building, Improvements and Equipment, (9381.0) Long Term Interest, (9382.0) Other fixed –HCF-2-RH, and (9385.0) Total Depreciation Account should be reported in this account. See the expense classification grid for further details.

#### **9300.2** Total Reported Variable Costs:

Sum of all the variable ("V") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account.

#### **9300.4** Total Reported Automatically Disallowed Expenses:

Automatically Disallowed Expenses are expenses that are considered non-allowable for reimbursement purposes. Sum of all the automatically disallowed ("N") accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account. The individual "N" account values must also be reported in their entirety in Schedule 13, Detail of Automatically Disallowed Expenses.

**9300.8 Total Reported Director of Nursing Costs:**

Sum of all the Director of Nursing (“D”) accounts in the Profit and Loss Statement should be reported in this account. Please refer to the expense classification grid for a listing of all the subsidiary accounts related to this control account.

**9300.0 Total Reported Management Company Expenses:**

Sum of the expenses reported in accounts 9300.1, 9300.2, 9300.8 and 9300.4 should be reported in this account.

**Non-Allowable Management Company Expenses**

**9301.1 Total Self-Disallowed Fixed Costs:**

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.1. Refer to the Schedule 14 instructions for the details on how this number is calculated for fixed costs.

**9301.2 Total Self-Disallowed Variable Costs:**

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.2.

**9301.4 Total Automatically Disallowed Expenses:**

The total Automatically Disallowed Expenses in this account is carried forward from Schedule 13, account 9301.4.

**9301.8 Total Self-Disallowed Director of Nursing Costs:**

The total self-disallowed amount in this account is carried forward from Schedule 14, account 9301.8.

**9301.0 Total Non-Allowable Management Company Expenses:**

Sum of the expenses reported in accounts 9301.1, 9301.2, 9301.8 and 9301.4

**Adjusted Management Company Expenses**

**9302.1 Total Adjusted Fixed Costs (from Schedule 15):**

The difference between the total reported fixed costs, account 9300.1, and the total non-allowable fixed costs, account 9301.1 should be reported in this account. The account total must also reconcile with the claimed fixed cost amount in Schedule 15, Detail of Claimed Fixed Costs, account 9302.1 net of any recoverable income and Schedule 10, column G.

**9302.2 Total Adjusted Variable Costs:**

The difference between the total reported variable costs, account 9300.2, and the total non-allowable variable costs, account 9301.2 should be reported in this account. The account total must also reconcile with the claimed allocated variable cost amount in Schedule 10, column E.

**9302.4 Total Automatically Disallowed Expenses:**

The difference between the total reported automatically disallowed account 9300.4, and the total automatically disallowed expenses, account 9301.4, should be reported in this account. This account should equal zero.

**9302.8 Total Adjusted Director of Nursing Costs:**

The difference between the total reported Director of Nursing Expenses, account 9300.8, and the total non-allowable Director of Nursing costs, account 9301.8 should be reported in this account. The account total must also reconcile with the claimed Director of Nurses allocated amount in Schedule 10, column “F”.

**9502.2 HCF-2-RH Variable Costs Add-back (HCF-2-RH Schedule 4)**

This amount should be carried forward from the HCF-2-RH, Schedule 4. The account total must also reconcile with the claimed HCF-2 Variable Add-back allocated amount in Schedule 10, column “E”.

**9302.0 Total Adjusted Management Company Expenses:**

Sum of the expenses reported in accounts 9302.1, 9302.2, 9302.8, 9302.4 and 9502.2. This account must also equal account 9300.0 less 9301.0 plus 9502.2.

**5: Analysis of Mortgages and Notes Payable**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-3.

**7: Reconciliation of Income per Report with Income per Books**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-3.

**8: Reconciliation of Net Worth**

See HCF-4 Instructions. This schedule is similar to the HCF-4 schedule except that it is information furnished for the HCF-3.

**10: Allocation of Proprietary Provider's Claim for Expense**

The Division recognizes that some management companies directly employ or contract the following positions: Director of Nurses, Dietitian, Physical Therapist, Occupational Therapist and Quality Assurance Professional. Schedule 10, allows for add backs to correspond with existing cost centers.

Schedule 10 must list all of the Massachusetts nursing homes managed by the management company. The allocation of costs must be over ALL of the management company's businesses. This includes MA and Non-MA facilities (even those facilities which do not claim expenses on their HCF-1 or HCF-4), and all other businesses (MA and Non-MA). Schedule 10 has been carefully designed to accommodate direct expense charges or credits to specific nursing facility or other entity activities. Whenever such direct assignments are necessary, a complete explanation and comprehensive documentation justifying the specific assignment of costs is necessary.

**Part 1:**

This part represents all of the allowable expenses claimed.

Part 1a – This section must list all of the Massachusetts nursing and rest homes managed by the management company and the allocation of expenses whether or not claimed on the nursing or rest homes' respective HCF-1's or HCF-4's.

Part 1b – This section must include the allocation of claimed expenses to Non-MA facilities managed by this entity reported in total. A listing of the Non-MA facilities and the allocated costs must be attached to the HCF-3.

Part 1c – This section must include the allocation of claimed expenses to the other businesses managed by this entity reported in total. A listing of the other businesses and the allocated costs must be attached. The method used to allocate these expenses must be explained.

Column A – This column is used to allocate the shared variable expenses to all nursing homes, rest homes and other businesses.

Column B – This column is carried forward from Part 3 of Schedule 10. This column must equal the sum of Part 3, A, B and C.

Column C – This column is used if the management company allocated certain variable expenses directly. An explanation must be provided.

Column D – This is the sum of columns A + B + C. This column must agree to account 9302.2 on Schedule 2.

Column E – The allocated HCF-2 Variable Cost Add-back is reported in this column. This column must agree to account 9502.2 on Schedule 2.

Column F – This column is carried forward from Part 2. This column must agree to Account 9302.8 on Schedule 2.

Column G – This column is used to allocate the Fixed Expenses from Schedule 15. This column must agree to account 9302.1 on Schedule 2.

Column H – This is the sum of columns D + E + F + G. This column must agree to account 9302.0 on Schedule 2.

**Part 2, Director of Nurses:**

This part should be completed if the management company employs the Director of Nursing, who works directly on-site at the nursing home it manages. Do not include the manager of the Director of Nursing or the person to whom the Director of Nursing reports. The amount reflected in the total column must also be reported in Part 1 in the designated fields. This part is carried forward to column F, Part 1.

**Part 3 (a) Dietitian and (b) Physical Therapist/Occupational Therapist (c) Quality Assurance Professional:** These parts should be completed if the management company employs or contracts with the Dietitian, the P.T./O.T. who performs **indirect** services or the Quality Assurance Professional who work on-site at the nursing or rest home. Do not include the expense of the person who manages the Dietitian, P.T./O.T., or Quality Assurance Professional or the person to whom they report. The amount reflected in the total columns must also be reported in Schedule 10, Part 1 in the designated fields. The sum of Part 3, a, b and c are carried forward to column B, Part 1.

**13: Detail of Automatically Disallowed Expenses**

Automatically Disallowed Expenses are expenses that are considered non-allowable for reimbursement purposes. This schedule begins the process of converting the report to a claim for reimbursement. Providers must enter all reported values from each automatically disallowed ("N") account in Schedule 2: The Profit and Loss Statement on the designated lines in Schedule 13. If the provider has nothing to report, then "not applicable: N/A" should be written and the total account 9301.4 set equal to zero. Once you have completed this schedule, the Total Automatic Disallowed Expenses, in Schedule 13 account 9301.4 must also be reported in the same account in Schedule 2: The Statement of Profit and Loss under the "Non-Allowable Expenses by Type" section of the Summary of Management Company Expenses.

**14: Detail of Self Disallowed Expenses**

This schedule requires the provider to adjust all expenses not automatically disallowed that are not reimbursable under 114.2 CMR 4.00 or 114.2 CMR 6.00 including any recoverable income that needs to be offset against claimed expenses. **Negative amounts will only be allowed for Fixed Costs.**

**9301.1** For each expense account, the self disallowed amount is the difference between the gross reported expense in the Schedule 2, Statement of Profit and Loss, and the claimed amount in Schedule 15, Detail of Claimed Fixed Costs. For example, if the amount reported in account 9386.8, building depreciation is \$10,000 and the claimed amount of building depreciation on Schedule 15 is \$5,200, the amount reported in Schedule 14 for account 9386.8 should be \$4,800. If the amount reported in account 9387.8 is \$0 in Schedule 2, and the amount reported on Schedule 15 is \$1,200, the amount reported on Schedule 14 for account 9387.8 should be (\$1,200).

**14a: Narrative for Detail of Self Disallowed Expenses**

A narrative describing and explaining the method or basis used to determine the self-disallowed amounts reported in Scheduled 14: Detail of Self-Disallowed Expenses must be provided on this page.

**15: Detail of Claimed Fixed Costs**

Since reported fixed costs are automatically disallowed, this schedule requires the provider to restore **only the allowable fixed costs** to the claim. Great care should be taken with this schedule since this is the basis of your fixed cost reimbursement. Errors and omissions on this schedule cause serious delays in computing rates. The allowable basis is seldom the same as actual cost; carefully review the provisions of 114.2 CMR 4.00. The starting point of this schedule should be your ending allowable basis from the previous year. Be sure to reflect the additions and deletions previously reported. Your claim for long-term interest including related period expense such as service fees, mortgage insurance, etc. as well as any new allowable Long Term Debt should reflect all permanent factors calculated on your existing debt as well as any new Long Term Debt. Make complete disclosure of your allocation

methodology to arrive at the amounts attributable to the Massachusetts' Nursing Facilities and Rest Homes and calculations supporting the permanent factor(s) of your new debt in the Footnotes and Explanations section. The claimed fixed costs in Schedule 15 must reconcile with total claimed fixed costs in Schedule 10.

**16: Detail of Clerical Expenses**

The total expenses for clerical services must be detailed on this schedule. If the detail provided here does not equal account 9321.1, the report will be returned to the provider. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**17: Detail of Administration Salaries Expense**

The total expenses for administration salaries must be detailed on this schedule. If the detail provided here does not equal account 9312.1, the report will be returned to the provider. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**19: Detail of Other Administrative Cost**

The total expense for Other Administrative Costs must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**20: Detail of General Insurance**

The total expense for General Insurance must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**21: Detail of Miscellaneous Expense**

The total expense for Miscellaneous must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**22: Detail of Other Property Costs**

The total expense for Other Property Cost must be detailed on this schedule. The total amount in this detail must reconcile with the same account in Schedule 2: Statement of Profit and Loss.

**23: Organizational Structure**

All management companies must complete this schedule. All documentation supporting the response must be available upon request by the Division.

Please read the EXAMPLE response below before preparing your answer.

**24: Additional Information**

A brief historical time-line narrative including background, company inception and other notable structural change dates must be provided on this schedule. This schedule is required of all management companies.

### EXAMPLE RESPONSE TO SCHEDULE 23

Response to Part 1 & 2:

The provider should attach a copy of the Organization Chart.

Response to Part 3.

- A. No costs are allocated down to ABC Management Company from the Parent/Owner Corporation.
- B. ABC Management Company consists of three departments; Accounting, Marketing and Administration. The total combined direct operating costs of the three departments equal \$100,000. Management has determined that only the Accounting Department Expenditures relate to the Health Care Division. Three components exist within the accounting department; Health Care, (which has direct costs of \$10,000) Pooled, (which has direct costs of \$20,000) and Non- Health Care, (which has direct costs of \$10,000) After thorough analysis, Management has decided that only \$15,000 (\$5,000 of Health Care and \$10,000 of Pooled) in accounting expenditures is allowable for health care reimbursement per 114.2 CMR 4.00 or 114.2 CMR 6.00 of the Massachusetts Division of Health Care Finance and Policy. The \$15,000 of allowable accounting costs will be subject to some reasonable method of allocation in a later step. (See Exhibit 2 for a more detailed explanation of the Accounting Department Allowable Expenditures and Allocation Method.)
- C. Health Care Division: Total direct operating costs consist of \$80,000. Management has concluded (after analysis) that only \$40,000 of the direct healthcare costs is allowable. This expenditure is allocated to our regional offices based on the percentage of total licensed beds in each region. The total licensed beds operated and/or managed equal 12,500. The East Regional Office oversees 5,000 of these beds. Therefore, forty percent (40%) of the Health Care Division's total allowable cost or \$16,000 has been allocated to the East Regional Office. Based upon some reasonable method of allocation, a portion of the \$16,000 of allowable costs allocated to the East Regional Office will be allocated to the Mass. Nursing Facilities at a later step.
- D. East Regional Office: Total direct operating costs consist of \$50,000. Management has concluded (after analysis) that only \$40,000 of the East Regional total direct operating costs is allowable. This expenditure is allocated based on licensed beds covered by this office. Total licensed beds in the east region are 5,000 with Massachusetts beds accounting for 1,000 of these beds. Therefore, twenty percent (20%) of the East Regional Office's allowable expenditures or \$8,000 has been allocated to Massachusetts facilities.

Massachusetts Regulation Analysis:

- A. Parent: None claimed.
- B. ABC Management:
  - 1. Accounting Department:
    - \$15,000 Allowable ABC Management Company Expenses
    - $\$15,000 * 50\% = \$7,500$  Allocated to the Health Care Division
    - $\$7,500 * 40\% = \$3,000$  Allocated to East Regional Office
    - $\$3,000 * 20\% = \$600$  Allocated to Mass. Facilities
  - 2. Health Care Division:
    - $\$80,000 * 50\% = \$40,000$  Allowable of Health Care Division
    - $\$40,000 * 40\% = \$16,000$  Allocated to Regional East
    - $\$16,000 * 20\% = \$3,200$  Allocated to Mass. Facilities
  - 3. East Regional Office:

$\$50,000 * 80\% = \$40,000$  Allowable of Regional East  
 $\$40,000 * 20\% = \$8,000$  Allocated to Mass. Facilities

Total Allowable Massachusetts Expenditures:

From ABC Mgmt Co./Acctg. Dept.:	\$ 600
From Health Care Division:	\$3,200
From East Regional Office:	<u>\$8,000</u>
Total	\$11,800

This total expenditure which is allowable under Massachusetts regulations is \$11,800. This cost will be allocated to individual facilities such that each licensed bed receives \$11.80 per year since there are 1000 licensed beds in Massachusetts.

Key of Allocation:

1. Allocation percentage of ABC's allowable direct Accounting\Health Care costs to the Division.
2. Allocation percentage of ABC's allowable Accounting\Pooled costs to the Health Care Division.
3. Allocation percentage of ABC's allowable Accounting\Non-Health Care costs to the Division.
4. Allocation percentage of the allowable costs to Regional East.
5. Allocation percentage of the allowable costs to Mass. Facilities.